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GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON INDIAN TEXTILE INDUSTRY : AN ANALYTICAL STUDY

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ABSTRACT

The Global Financial Crisis of 2008 is a major financial crisis, which is ongoing as of January 2009. It became prominently visible in September 2008 with the failure, merger or conservator ship of several large United States-based financial firms. The underlying causes leading to the crisis had been reported in business journals for many months before September, with commentary about the financial stability of leading U.S. and European investment banks, insurance firms and mortgage banks consequent to the subprime mortgage crisis. Beginning with failures of large financial institutions in the United States, it rapidly evolved into a global crisis resulting in a number of European bank failures and declines in various stock indexes, and large reductions in the market value of equities (stock) and commodities worldwide. The crisis has led to a liquidity problem and the de-leveraging of financial institutions especially in the United States and Europe, which further accelerated the liquidity crisis.

World political leaders and national ministers of finance and central bank directors have coordinated their efforts to reduce fears but the crisis is ongoing and continues to change, evolving at the close of October into a currency crisis with investors transferring vast capital resources into stronger currencies such as the yen, the dollar and the Swiss franc, leading many emergent economies to seek aid from the International Monetary Fund. The crisis was triggered by the subprime mortgage crisis and is an acute phase of the financial crisis of 2007–2008. This article provides an overview of the Global Financial Crisis and its impact on Indian Textile Industry.

The global financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. Around the world stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems.

On the one hand many people are concerned that those responsible for the financial problems are the ones being bailed out, while on the other hand, a global financial meltdown will affect the livelihoods of almost everyone in an increasingly inter-connected world. The problem could have been avoided, if ideologues supporting the current economic models weren't so vocal, influential and inconsiderate of others' viewpoints and concerns.

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The Global Financial Crisis of 2008 is a major financial crisis, which is ongoing as of January 2009. It became prominently visible in September 2008 with the failure, merger or conservator ship of several large United States-based financial firms. The underlying causes leading to the crisis had been reported in business journals for many months before September, with commentary about the financial stability of leading U.S. and European investment banks, insurance firms and mortgage banks consequent to the subprime mortgage crisis.

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This article provides an overview of the crisis with links to the impact on Indian textile Industry.

From Economic to Political Problem

The problem ceased to be an economic problem months ago. More precisely, the economic problem has transformed into a political problem. Ever since the collapse of Bear Stearns, the primary actor in the drama has been the federal government and the Federal Reserve, with its powers increasing as the nature of potential market outcomes became more and more unsettling. At a certain point, the size of the problem outstripped the legislated resources of the Treasury and the Fed, so they went to Congress for more power and money. This time, they were blocked.

It is useful to reflect on the nature of the crisis. It is a tale that can be as complicated as you wish to make it, but it is in essence simple and elegant. As interest rates declined in recent years, investors particularly conservative ones sought to increase their return without giving up safety and liquidity. They wanted something for nothing, and the market obliged. They were given instruments ultimately based on mortgages on private homes. They therefore had a very real asset base a house and therefore had collateral. The value of homes historically had risen, and therefore the value of the assets appeared secured. Financial instruments of increasing complexity eventually were devised, which were bought by conservative investors. In due course, these instruments were bought by less conservative investors, who used them as collateral for borrowing money. They used this money to buy other instruments in a pyramiding scheme that rested on one premise: the existence of houses whose value remained stable or grew.

Unfortunately, housing prices declined. A period of uncertainty about the value of the paper based on home mortgages followed. People claimed to be confused as to what the real value of the paper was. In fact, they were not so much confused as deceptive. They didn't want to reveal that the value of the paper had declined dramatically. At a certain point, the facts could no longer be hidden, and vast amounts of value evaporated — taking with them not only the vast pyramids of those who first created the instruments and then borrowed heavily against them, but also the more conservative investors trying to put their money in a secure space while squeezing out a few extra points of interest. The decline in housing prices triggered massive losses of money in the financial markets, as well as reluctance to lend based on uncertainty of values. The result was a liquidity crisis, which simply meant that a lot of people had gone broken and that those who still had money weren't lending it — certainly not to financial institutions.

The Financial Crisis and the Developing World

For the developing world, the rise in food prices as well as the knock-on effects from the financial instability and uncertainty in industrialized nations are having a compounding effect. High fuel costs, soaring commodity prices together with fears of global recession are worrying many developing country analysts.

Summarizing a United Nations Conference on Trade and Development report, the Third World Network notes the impacts the crisis could have around the world, especially on developing countries that are dependent on commodities for import or export:

Uncertainty and instability in international financial currency and commodity markets, coupled with doubts about the direction of monetary policy in some major developed countries, are contributing to a gloomy outlook for the world economy and could present considerable risks for the developing world, the UN Conference on Trade and Development (UNCTAD) said.… Commodity-dependent economies are exposed to considerable external shocks stemming from price booms and busts in international commodity markets.

Market liberalization and privatization in the commodity sector have not resulted in greater stability of international commodity prices. There is widespread dissatisfaction with the outcomes of unregulated financial and commodity markets, which fail to transmit reliable price signals for commodity producers. In recent years, the global economic policy environment seems to have become more favorable to fresh thinking about the need for multilateral actions against the negative impacts of large commodity price fluctuations on development and macroeconomic stability in the world economy.

Government panel on Impact of Global Crisis on India

The Government has constituted a committee to consider issues raised by India on global financial crisis and its impact on India.

"Prime Minister has approved constitution of a committee of officers to be chaired and convened by the Finance Secretary to consider issues raised by industry with regard to the current global financial situation and its impact on India," an official release said.

Trade and industry may send their suggestions to the committee, Earlier this week, Prime Minister Manmohan Singh had interacted with the captains of Indian industry on impact of global financial crisis on India.

"A crisis of this magnitude was bound to affect our economy and it has. International credit has shrunk with adverse effects on our corporate and banks. Global uncertainty is also tending to dampen investor sentiment," the Prime Minister had said at the meeting.

He asked industry to refrain from any "knee-jerk" reaction such as large-scale layoffs, which might lead to a negative spiral.

"Industry must bear in mind its societal obligations in coping with the effects of this global crisis," which the Prime Minister felt "is now likely to be more severe and prolonged," he had said.

Earlier, a separate committee was set up, headed by the Prime Minister, to coordinate the government's response on industry's concerns in the wake of the global financial crisis.

An Introduction to Indian Handlooms

Indian hand woven fabrics have been known since time immemorial. Poets of the Mughal durbar likened our muslins to baft hawa (woven air), abe rawan (running water) and shabnam (morning dew). A tale runs that Emperor Aurangzeb had a fit of rage when he one day saw his daughter princess Zeb-un-Nissa clad in almost nothing. On being severely rebuked, the princess explained that she had not one but seven jamahs (dresses) on her body. Such was the fineness of the hand woven fabrics.

Historical Evidence

Though India was famous even in ancient times as an exporter of textiles to most parts of the civilized world, few actual fabrics of the early dyed or printed cottons have survived. This, it is explained is due to a hot, moist climate and the existence of the monsoons in India. It is not surprising therefore, that Egypt which has an exceptionally dry climate would provide evidence which India lacks. The earliest Indian fragment of cloth (before the Christian era) with a hansa (swan) design was excavated from a site near Cairo where the hot dry sand of the desert acted as a preservative.

Later, fragments of finely woven and madder-dyed cotton fabrics and shuttles were found at some of the excavated sites of Mohenjodaro (Indus valley civilization). Indian floral prints, dating back to the 18th century A.D were discovered by Sir Aurel Stein in the icy waters of Central Asia. The evidence shows that of all the arts and crafts of India, traditional handloom textiles are probably the oldest.

Handlooms the largest Cottage Industry

Handlooms are an important craft product and comprise the largest cottage industry of the country. Millions of looms across the country are engaged in weaving cotton, silk and other natural fibers. There is hardly a village where weavers do not exist, each weaving out the traditional beauty of India's own precious heritage.

Government Schemes for the enlistment of the Handlooms Industry

To uplift the handloom industry, Government has introduced many schemes. Here we discuss about the highlights of the Government Schemes and its effectiveness.

The Ministry of Textiles announced the following five Schemes in the 11th Five year plan by merging the different Schemes of 10th Five year plan.

(a) Five Schemes of 11th Five Year Plan

1. Integrated Handlooms Development Scheme (IHDS),
2. Mill Gate price scheme,
3. Handloom Weavers Welfare Scheme,
4. Marketing and Export Promotion Scheme,
5. Diversified Handloom Development Scheme.

(b) Diversified Handloom Development Scheme

- This scheme provides Technological up-gradation through a variety of programmes which cover skill up-gradation of weavers, Development of Designs and Product Development.

- Strengthening of :
  - Weavers Service Centre, (WSC) ;
  - Indian Institute of Handloom Technology (IIHTs) ;
  - National Centre for Textile Designs (NCTD).
- Research and Development
- Jammu & Kashmir Wool Project and Weavers Service Centre
- Setting up of New IIHTs
- Starting Handloom Census and issuing Identify Cards to Handloom Weavers

(c) Export Promotion Scheme

- To identify and assist suitable Apex/Primary Handloom Co-op. Societies and Corporation in developing the products that are Export - worthy.
- Market penetration through participation in International Exhibitions, and Buyer-Seller Meets.
- Export project, International Fairs and Exhibitions, Setting up of Design Studios, and Promotional Events. These components are under Export Promotion Scheme.

(d) Integrated Handlooms Development Scheme (IHDS)

- To form Handloom Weavers Groups
- To assist weavers for becoming self Sustainable
- To cover weavers within and outside the Co-op. fold
- To upgrade the skills of the Handloom Weavers
- To provide suitable work place to the weavers
- To orient Marketing, Designing and managing the production
- To facilitate credit from Banks
- To encourage Co-operative actions of weavers
- To intervene each cluster with specific holistic and flexible manner

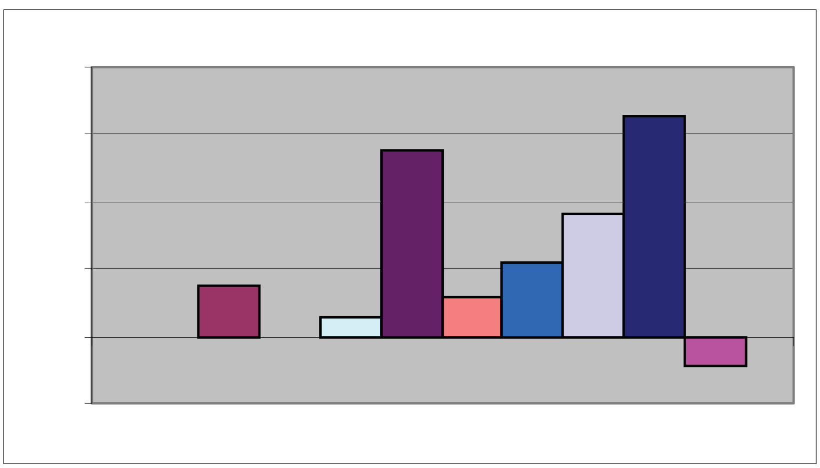
Global Financial Crisis and its Impact on Handloom Textiles in India

The handloom Industry is the largest industry in terms of employment, but in monetary terms it may not be having such importance. 38 lakhs handlooms are giving employment to about 65 lakhs families; but contributing only 13% of our Textile production. When considering the foreign exchange earnings, it has considerable clout over other sectors of the industry because it ranges between Rs.3000 crores to Rs.3500 crores per annum. Since now the industrial world is worrying over the influence of the so called Global financial crisis, it is worth to think about our handloom industry and how it spares with the present global crisis and what will be its effects in coming days.

The volume of Handloom Exports in monetary terms as published by Government of India up to 2007-08 (Tentative) and the eight year record may be quoted as below:

Table - 1

Fig: 1



These figures show two points into consideration:

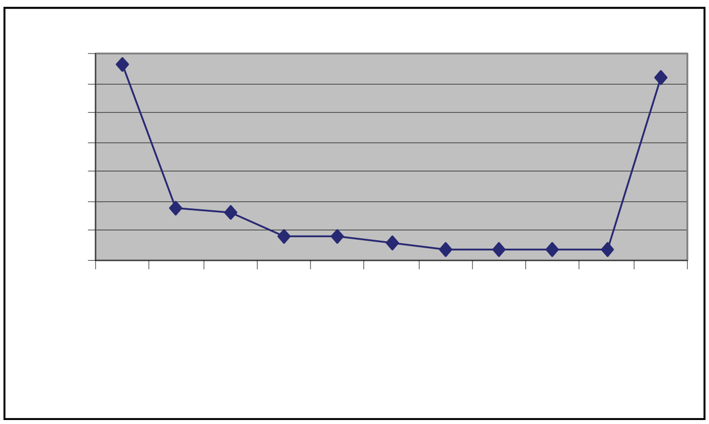
1. The average increase per year in exports during the period of quota regime was around 5%, and for some years it was decreasing.

2. After the phase out of quota systems the rate of exports increased per year above 20%,

Since in the present financial crisis the epicenter is USA, we have to analyze the country wise exports of handloom goods from India. It is as below in 2002-03 terms.

Table:2

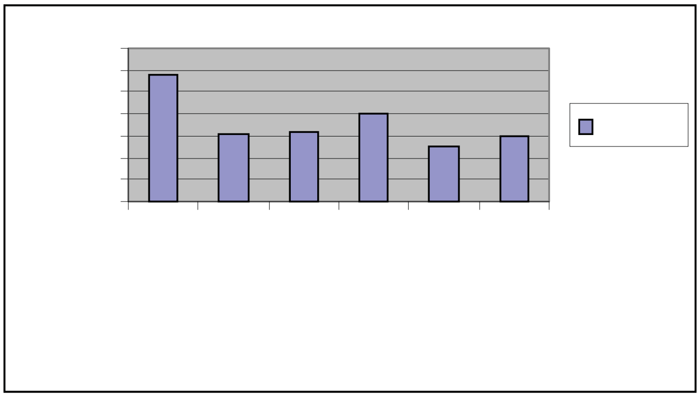
Fig:2



That means, the major export target for Handloom goods country wise is USA. We all know it is for the consumers who buy's the items mostly from various stores/ through retail chain stores. 95% of US retailers are the single store type and rest the chains like Wal-Mart, Ikea etc. The sales figures as available with Retail sector : the annual sales in USA through retail is of 3.8 trillion dollars with a per capita purchase of 11993 dollars. The Average sales growth rate in retail in previous years is:

Table-3

Fig:3



These facts show that in the Export front, the per capita consumption of USA consumers is in the Driver seat or such consumption pattern accounts for the increase in international trade. Since the present financial crisis is countering the spending pattern of US consumers it may definitely hit our Exports. There are reports in the internet that even for apparels there is a decrease in sales for 2.2% this November. The matter is now in the forefront.

How?

1. The sales of consumer goods in USA are mainly based on two seasons: Spring/Summer & Autumn/ Winter. That also is the Handloom product mostly home furnishings which fall under the categories of Christmas sales. This Christmas sales are definitely going to decrease because of the change in spending pattern.
2. In response to this situation, many companies have started declaring discount in prices and this will in turn give pressure on producers for lowering prices.
3. Many of the Exporting units in the country has long term contracts or links with buyers abroad, so there may be a chance not to resort to price cut directly. They may intensify

their quantity & quality check, or redirect business terms or finding fault with domestic producers in order to delay or decrease the taking up of stocks or replenishments.

4. During the financial crisis, the buying companies may be subjected to be taken over by strong players in the field. This will change the company profile, product lines, and supply chains. Due to this, our producers will fall into trouble to cope with new situation.

So we have to apprehend that even though the global financial crisis is not directly hitting us, it is going to affect us indirectly. Our industry has to be cautious about it and see that bad times have to be seen as an opportunity to tune our performance and quality too strict and healthy in long run. Our Human Assets instead of being thrown out has to be geared and rejuvenated for better performance so that we can look forward for sustainable markets including growing domestic market. We cannot be paniky, but conceive it, study it, and counter it.

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